

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

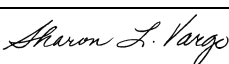
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

Berrien County Road Commission

**Financial Report
with Supplemental Information
September 30, 2007**

Berrien County Road Commission

Contents

Report Letter	I
Management's Discussion and Analysis	2-5
Basic Financial Statements - Government-wide/Governmental Fund Financial Statements	
Governmental Fund Balance Sheet/Statement of Net Assets	6
Statement of Governmental Fund Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities	7
Notes to Financial Statements	8-20
Required Supplemental Information	21
Budgetary Comparison Schedule - Road Fund	22
Other Supplemental Information	23
Analysis of Changes in Road Fund Balances	24
Analysis of Road Fund Revenue	25
Analysis of Road Fund Expenditures	26
Statement of Road Fund Administrative Expenditures	27



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Independent Auditor's Report

To the Board of Road Commissioners
Berrien County Road Commission

We have audited the accompanying basic financial statements of Berrien County Road Commission (a component unit of Berrien County, Michigan) (the "Road Commission") as of and for the year ended September 30, 2007, as listed in the table of contents. These basic financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Berrien County Road Commission at September 30, 2007 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the required supplemental information presented on page 22 are not required parts of the basic financial statements, but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplemental information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Berrien County Road Commission. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

December 11, 2007

Berrien County Road Commission

Management's Discussion and Analysis

This section of Berrien County Road Commission's (the "Road Commission") annual financial report presents our discussion and analysis of the Road Commission's financial performance during the fiscal year ended September 30, 2007. Please read it in conjunction with the Road Commission's financial statements, which follow this section.

Financial Highlights

- The Road Commission's total net assets decreased by approximately \$.7 million.
- Total expenditures of \$15.8 million exceeded total revenue sources for the year of \$15.1 million by \$.7 million before the inclusion of the contribution of infrastructure.
- \$5.2 million was invested in capital assets during the year.
- The obligation for post-employment benefits has been reflected using the alternative measurement method permitted by GASB Statement No. 45 for employers with fewer than 100 plan members.

Overview of the Financial Statements

This annual report consists of a series of financial statements. The governmental fund balance sheet/statement of net assets presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis and then in total on a full accrual basis. The modified accrual fund-based column presents a short-term view of the Road Commission; it tells us how much is available for future spending. The total full accrual column is intended to present a longer-term view and tells us whether taxpayers have funded the full cost of providing services to date.

The statement of governmental fund revenues, expenditures, and changes in fund balance/statement of activities also presents all governmental activities of the Road Commission, presented first by fund on a modified accrual basis and then in total on a full accrual basis. The modified accrual fund-based column tells us how the taxpayers' money was spent during the year, while the total full accrual column tells us the cost of providing services this year, as well as whether taxpayers paid the full cost of providing services this year.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the information in the financial statements. In addition to these required elements, we have included a section with more detail regarding revenue, expenditures, and changes in fund balances.

Berrien County Road Commission

Management's Discussion and Analysis (Continued)

Financial Analysis of the Road Commission as a Whole

Net Assets - The Road Commission's net assets decreased during 2007 by \$.7 million, ending the year at \$83.2 million. The table below shows the composition of the Road Commission's net assets at September 30, 2007, 2006, and 2005:

	Governmental Activities		
	2007	2006	2005
Assets			
Current and other assets	\$ 7,536,293	\$ 8,444,524	\$ 9,405,640
Capital assets	79,402,656	79,731,840	78,254,300
Total assets	86,938,949	88,176,364	87,659,940
Liabilities			
Long-term liabilities outstanding	2,012,344	2,291,031	2,900,017
Other liabilities	1,679,606	1,927,320	2,078,464
Total liabilities	3,691,950	4,218,351	4,978,481
Net Assets			
Invested in capital assets - Net of related debt	77,017,856	76,922,040	74,778,725
Restricted for debt service	168,566	194,611	226,062
Unrestricted	6,060,577	6,841,362	7,676,672
Total net assets	<u>\$ 83,246,999</u>	<u>\$ 83,958,013</u>	<u>\$ 82,681,459</u>

Changes in Net Assets - The Road Commission's change in net assets was due primarily to the capitalization of current year infrastructure expenditures included in capital assets. Infrastructure consists of constructing or reconstructing roads, bridges, and intersections. Other changes include various revenue sources and expense categories as shown on the next page.

The Michigan Transportation Fund revenue is a statutory formula that is structured to share various fuel tax and license fees collected by the State of Michigan with cities, road commissions, and the Michigan Department of Transportation. This revenue item is the primary source of revenue for the Road Commission. For 2007, there was a \$45,000 increase in Michigan Transportation Funds receipts, a decrease of \$650,000 in federal and state aid due to timing of projects receiving these funds, and a \$90,000 increase in revenue from local governments. Other revenue increased \$400,000 due to higher revenue received from the Michigan Department of Transportation (MDOT) for nonmaintenance projects on MDOT roads.

Berrien County Road Commission

Management's Discussion and Analysis (Continued)

Expenditures were \$1.9 million above 2006. The increase in expenses is primarily attributed to higher maintenance costs due to increased cost of road materials and snow removal costs in 2007. The remainder of the increase was attributed to more state nonmaintenance projects in 2007.

	Governmental Activities		
	2007	2006	2005
Revenue			
State aid - Act 51	\$ 10,836,127	\$ 10,791,321	\$ 10,856,585
Federal/State sources	1,238,005	1,891,407	2,581,289
Revenue from local governments	2,091,720	2,001,984	2,386,273
Other	891,570	499,757	1,043,543
Total revenue	15,057,422	15,184,469	16,867,690
Expenses			
Maintenance	9,156,352	7,545,698	8,629,343
Administrative	1,231,795	1,162,287	1,031,803
Depreciation	5,505,183	5,400,204	5,313,748
Loss on disposal of assets	-	-	870,408
Interest and other	(124,894)	(200,274)	(177,228)
Total expenses	15,768,436	13,907,915	15,668,074
Change in Net Assets	\$ (711,014)	\$ 1,276,554	\$ 1,199,616

Financial Analysis of Commission's Funds

The Road Fund fund balance ended the year at \$5.7 million, which is \$355,000 less than the previous year. Portions of this balance are reserved for anticipated needs in the near future. The total reserved fund balance is \$375,000. The remaining unreserved fund balance is \$5.3 million.

Road Fund Budgetary Highlights

The Road Commission amended its 2007 budget on one occasion during the year to reflect changes in budgeted projects and activities. The final expenditure budget was \$1.6 million lower than the original budget. Expenses were increased primarily as a result of a \$1.5 million increase in maintenance expenditures due to higher snow removal costs and increased material and equipment costs in 2007.

Berrien County Road Commission

Management's Discussion and Analysis (Continued)

Capital Assets

The Road Commission had \$79.4 million in net capital assets at the end of the year, which includes \$76.5 million of infrastructure activities.

Economic Factors and Next Year's Budget

The Michigan Transportation Fund (MTF), the repository of fuel taxes and vehicle registration fees collected by the State, is the principal source of Road Commission funding. Based on the last 12-month MTF revenue collection report by the Department of Treasury, the MTF is slightly higher than the previous year, which resulted in an increase of \$45,000 to the Road Commission in fiscal year 2007.

The money received from the Michigan Transportation Fund in 2008 is expected to be 4 percent lower than in 2007. This will result in fewer road construction projects for 2008 due to the higher road material costs and employee benefit costs that will not be offset by any additional revenue to cover the increases. Also, the Road Commission has not replaced four staff members who have retired during the past year.

World political conditions may affect crude oil prices which may affect the Road Commission's costs of fuel for operations and asphalt paving prices. A significant cost increase in these commodities may result in workload adjustments and project deferrals.

Contacting the Road Commission's Financial Management

This financial report is designed to provide a general overview of the Road Commission's finances and accountability of the public trust. Questions regarding any of the information provided in this report or requests for additional information should be addressed to the director of finance, Berrien County Road Commission, P.O. Box 768, Benton Harbor, MI 49023-0768 or visit our webpage at www.roadcommission.com.

Berrien County Road Commission

Governmental Fund Balance Sheet/Statement of Net Assets September 30, 2007

	Governmental Fund - Road Fund	Adjustments (Note 2)	Statement of Net Assets
Assets			
Cash and investments (Note 3)	\$ 3,295,703	\$ -	\$ 3,295,703
Restricted cash - Debt service (Note 3)	168,566	-	168,566
Due from other government units	2,599,359	-	2,599,359
Special assessment receivable	125,013	-	125,013
Inventory	784,827	-	784,827
Prepaid expenses	206,292	-	206,292
Deferred expense	356,533	-	356,533
Capital assets - Net (Note 4):			
Assets being depreciated	-	65,499,360	65,499,360
Assets not being depreciated	-	13,903,296	13,903,296
Total assets	\$ 7,536,293	79,402,656	86,938,949
Liabilities and Fund Balances			
Liabilities			
Accounts payable and accrued liabilities	\$ 594,579	-	594,579
Advances	458,027	-	458,027
Deferred revenue (Note 5)	778,694	(778,694)	-
Escrow	2,000	-	2,000
Long-term obligation for retiree healthcare benefits (Note 9)	-	162,327	162,327
Long-term debt, due within one year (Note 7)	-	625,000	625,000
Long-term debt, due in more than one year (Note 7)	-	1,759,800	1,759,800
Compensated absences (Note 6)	-	90,217	90,217
Total liabilities	1,833,300	1,858,650	3,691,950
Fund Balances			
Reserved for debt service	168,566	(168,566)	-
Reserved for prepaid expenses	206,292	(206,292)	-
Unreserved	5,328,135	(5,328,135)	-
Total fund balances	5,702,993	(5,702,993)	-
Total liabilities and fund balances	\$ 7,536,293		
Net Assets			
Investments in capital assets - Net of related debt		77,017,856	77,017,856
Restricted for debt service		168,566	168,566
Unrestricted		6,060,577	6,060,577
Total net assets		\$83,246,999	\$ 83,246,999

Berrien County Road Commission

Statement of Governmental Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended September 30, 2007

	Governmental Fund - Road Fund	Adjustments (Note 2)	Statement of Net Assets
Revenue			
State aid - Act 51	\$ 10,836,127	\$ -	\$ 10,836,127
Federal/State sources	1,468,005	(230,000)	1,238,005
Revenue from local governments	1,084,329	-	1,084,329
Special assessments	125,013	(125,013)	-
Contribution of infrastructure	-	1,007,391	1,007,391
Interest, fees, and other revenue	764,915	126,655	891,570
Total revenue	14,278,389	779,033	15,057,422
Expenditures			
Current:			
Primary heavy maintenance	2,489,965	(2,489,965)	-
Primary heavy maintenance - Bridges	418,167	(418,167)	-
Local heavy maintenance	552,533	(552,533)	-
Local heavy maintenance - Safety	796	(796)	-
Local heavy maintenance - Bridges	30,992	(30,992)	-
Primary maintenance	4,095,718	-	4,095,718
Local maintenance	4,544,194	(1,322)	4,542,872
State maintenance	56,185	-	56,185
State nonmaintenance	443,098	-	443,098
County drain assessments	18,479	-	18,479
Administrative	1,258,256	(26,461)	1,231,795
Net capital outlay	(246,224)	246,224	-
Less equipment rental charged to other expenditures	631,109	(839,638)	(208,529)
Depreciation expense	-	5,505,183	5,505,183
Debt service:			
Principal retirement	625,000	(625,000)	-
Interest/Fees	83,635	-	83,635
Total expenditures	15,001,903	766,533	15,768,436
Excess of Expenditures Over Revenue	(723,514)	12,500	(711,014)
Other Financing Sources			
Proceeds from issuance of long term debt	200,000	(200,000)	-
Proceeds from sale of assets	168,010	(168,010)	-
Total other financing sources	368,010	(368,010)	-
Change in Fund Balance/Net Assets	(355,504)	(355,510)	(711,014)
Fund Balance/Net Assets - Beginning of year	6,058,497	77,899,516	83,958,013
Fund Balance/Net Assets - End of year	<u>\$ 5,702,993</u>	<u>\$77,544,006</u>	<u>\$ 83,246,999</u>

Berrien County Road Commission

Notes to Financial Statements September 30, 2007

Note 1 - Significant Accounting Policies

Berrien County Road Commission (a component unit of Berrien County, Michigan) (the "Road Commission") is a governmental agency responsible for the maintenance and construction of the county road system in Berrien County. The Road Commission's financial statements will be included in the basic financial statements of the County of Berrien, Michigan.

The accounting policies of the Road Commission conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Basic Financial Statements - Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Road Commission. The Road Commission consists solely of government-type activities; no business-type activities exist.

The fund financial statements are provided for governmental funds and have been separately stated in conjunction with the government-wide financial statements.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Road Commission considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Revenue related to construction projects and inspection work orders is recognized when the related costs are incurred, subject to the availability criterion. Other revenue is recorded when received.

Berrien County Road Commission

Notes to Financial Statements September 30, 2007

Note 1 - Significant Accounting Policies (Continued)

Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Noncurrent receivables, such as special assessments, are recorded at full value and deferred revenue is recorded for the portion not available for use to finance operations as of year end.

Interest earned on investments is recorded on the accrual basis. Interest revenue on special assessment receivables is not accrued until its due date.

Cash and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are reported at fair value, based on quoted market prices.

Inventory and Prepaid Items - Inventory, principally consisting of road material, salt, signs, and equipment maintenance materials, is valued at average cost. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, culverts, and similar items), are reported in the government-wide financial statements. Capital assets are defined by the Road Commission as assets with an initial individual cost of more than \$1,000 and an estimated useful life of three years or more. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at estimated fair market value at the date of donation.

Berrien County Road Commission

Notes to Financial Statements September 30, 2007

Note 1 - Significant Accounting Policies (Continued)

Capital assets are depreciated using the straight-line, units of production, or sum of years - digits methods over the following useful lives:

	Methods	Useful Lives - Years
Buildings	Straight-line	40
Salt storage bins	Units of production	Various
Road equipment	Sum of years - Digits	5-8
Other equipment	Straight-line	10-20
Roads	Straight-line	5-30
Other infrastructure	Straight-line	12-50

Compensated Absences (Vacation and Sick Leave) - It is the Road Commission's policy to allow employees to accumulate earned but unused vacation pay benefits. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund only for employee terminations as of year end. The Road Commission does not accrue for unused sick pay benefits.

Long-term Obligations - Long-term debt and other long-term obligations are reported as liabilities in the government-wide financial statement column. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Other accounting policies are disclosed in the following notes to the financial statements.

Berrien County Road Commission

Notes to Financial Statements September 30, 2007

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Amounts reported in the government-wide financial statement column are different from amounts reported in the governmental fund column because of the following:

Governmental fund - Fund balance	\$ 5,702,993
Capital assets used in governmental activities are not financial resources and are not reported in the fund	79,402,656
Special assessment receivables and due from federal government not collected are not available to pay for current year expenditures within 60 days of year end	778,694
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(2,384,800)
Long-term postretirement benefit obligations are not due and payable in the current period and are not reported in the funds	(162,327)
Compensated absences are not reported in the funds	<u>(90,217)</u>
Total government-wide net assets	<u>\$ 83,246,999</u>

Berrien County Road Commission

Notes to Financial Statements September 30, 2007

Note 2 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

Net change in fund balance - Total governmental fund \$ (355,504)

The governmental fund reports capital outlay as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Current year additions	4,209,963
Depreciation	(5,505,183)

Contributions of infrastructure are recorded in the statement of activities, but are not recorded in the governmental fund 1,007,391

In the statement of activities, only the loss on the sale of capital assets is reported, whereas in the governmental fund, the proceeds from the sale are reported. Therefore, the change in net assets differs from the change in fund balance by the net book value of the assets sold (41,355)

Repayment of debt principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 625,000

Bond proceeds provide financial resources to governmental funds, but issuing debt increases long term liabilities in the statement of net assets. (200,000)

In the governmental fund, special assessment and grant receipts not collected within 60 days of year end are not available to pay for current year expenditures; whereas in the statement of activities, revenue is recognized when earned (355,013)

In the statement of activities, long-term postretirement benefit obligations are reported as expense, but not in the governmental fund (96,313)

Change in net assets of governmental activities \$ (711,014)

Berrien County Road Commission

Notes to Financial Statements September 30, 2007

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Road Commission has designated two banks for the deposit of its funds, in addition to funds held by Berrien County. The Road Commission follows the investment policy adopted by Berrien County. In accordance with Public Act 196 of 1997, the policy has authorized investment in bonds and securities and other obligations of the United States government; bank accounts and certificates of deposit; limited commercial paper, not to exceed 25 percent of any fund; repurchase agreements limited to United States government investments; and certain investment pools, excluding mutual funds. The Road Commission's deposits and investment policies are in accordance with statutory authority.

The Road Commission's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned to it. The Road Commission does not have a deposit policy for custodial credit risk. At year end, the Road Commission had \$180,099 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Road Commission believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Road Commission evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Berrien County Road Commission

Notes to Financial Statements September 30, 2007

Note 3 - Deposits and Investments (Continued)

Interest Rate Risk

Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Road Commission's investment policy does not restrict investment maturities. At year end, the average maturities of investments are as follows:

Investment	Fair Value	Weighted Average Maturity
Fannie Mae pooled investments	233,068	10.8 years
Freddie Mac pooled investments	2,877,591	15.6 years
U.S. Treasury pooled investments	157,567	11.4 years
Ginnie Mae pooled investments	5,143	24.5 years

Credit Risk

State law limits investment in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Road Commission has no investment policy that would further limit its investment choices. As of year end, the credit quality rating of U.S. agencies' securities (other than U.S. government) was AAA by Standard & Poor's.

Concentration of Credit Risk

The Road Commission places no limit on the amount that may be invested in any one issuer. More than 5 percent of the Road Commission's investments are in the following investments:

Investment	Percent
Fannie Mae pooled investments	7.12%
Freddie Mac pooled investments	87.91%

Berrien County Road Commission

Notes to Financial Statements September 30, 2007

Note 4 - Capital Assets

Capital asset activity for the current year was as follows:

	Beginning Balance (as Adjusted)	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets not being depreciated -				
Land and land improvements	\$ 12,983,415	\$ 919,881	\$ -	\$ 13,903,296
Capital assets being depreciated:				
Buildings and storage bins	2,097,961	55,424	-	2,153,385
Road equipment	10,788,629	622,830	473,209	10,938,250
Other equipment	1,010,309	37,934	65,561	982,682
Infrastructure	<u>125,214,467</u>	<u>3,581,285</u>	<u>-</u>	<u>128,795,752</u>
Subtotal	139,111,366	4,297,473	538,770	142,870,069
Less accumulated depreciation:				
Buildings and storage bins	1,531,313	64,152	-	1,595,465
Road equipment	8,708,507	839,638	436,641	9,111,504
Other equipment	708,277	58,622	60,774	706,125
Infrastructure	<u>61,414,844</u>	<u>4,542,771</u>	<u>-</u>	<u>65,957,615</u>
Subtotal	<u>72,362,941</u>	<u>5,505,183</u>	<u>497,415</u>	<u>77,370,709</u>
Net capital assets being depreciated	<u>66,748,425</u>	<u>(1,207,710)</u>	<u>41,355</u>	<u>65,499,360</u>
Net capital assets	<u>\$ 79,731,840</u>	<u>\$ (287,829)</u>	<u>\$ 41,355</u>	<u>\$ 79,402,656</u>

The Road Commission had commitments for construction contracts totaling approximately \$682,000 at September 30, 2007.

Berrien County Road Commission

Notes to Financial Statements September 30, 2007

Note 5 - Deferred Revenues

Deferred revenues for the year ended September 30, 2007 were as follows:

Special assessment receivable	\$ 125,013
Due from federal government	<u>653,681</u>
Total	<u>\$ 778,694</u>

Deferred revenue was reclassified to net assets on the government-wide financial statements since these amounts represent revenue earned in prior years.

Note 6 - Other Long-term Liabilities

Insurance Programs

The Road Commission is exposed to various risks related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for torts, errors and omissions, and for medical benefit claims. The Road Commission participates in the Michigan County Road Commission Self-insurance Pool for tort, errors and omissions, and property liability. The Road Commission participates in the County Road Association Self-insurance Fund for workers' compensation insurance. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan County Road Commission Self-insurance Pool and County Road Association Self-insurance Fund programs operate as a common risk-sharing management program for road commission units in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Compensated Absences

The compensated absences liability represents the estimated liability to be paid employees under the Road Commission's leave policies. Under the Road Commission's policy, employees earn vacation time based on length of service with the Road Commission.

Berrien County Road Commission

Notes to Financial Statements September 30, 2007

Note 7 - Long-term Debt

Outstanding Debt

The following is a summary of the debt outstanding of the Road Commission as of September 30, 2007:

	Interest Rate	Maturing Through	Beginning Balance	Additions	Reductions	Principal Outstanding	Amount Due Within One Year
General obligations:							
1998 Michigan Department of Transportation Bond	4.00%	2008	\$ 250,000	\$ -	\$ (125,000)	\$ 125,000	\$ 125,000
2000 Michigan Department of Transportation Bond	4.5% to 4.75%	2010	1,890,000	-	(350,000)	1,540,000	350,000
Berrien Township - Note payable	0%	2014	369,800	-	(50,000)	319,800	50,000
Watervliet Township - Note payable	0%	2014	200,000	200,000	(50,000)	350,000	50,000
Oronoko Township - Note payable	0%	2007	47,200	-	(25,000)	22,200	22,200
Buchanan Township - Note payable	0%	2007	52,800	-	(25,000)	27,800	27,800
Total			<u>\$ 2,809,800</u>	<u>\$ 200,000</u>	<u>\$ (625,000)</u>	<u>\$ 2,384,800</u>	<u>\$ 625,000</u>
Other long-term obligations:							
Obligation for retiree healthcare benefits	N/A	N/A	\$ 66,014	\$ 96,313	\$ -	\$ 162,327	\$ -
Employee compensated absences	N/A	N/A	90,217	-	-	90,217	-
Total			<u>\$ 156,231</u>	<u>\$ 96,313</u>	<u>\$ -</u>	<u>\$ 252,544</u>	<u>\$ -</u>

Berrien County Road Commission

Notes to Financial Statements September 30, 2007

Note 7 - Long-term Debt (Continued)

Changes in Long-term Debt

The following is a summary of long-term debt transactions of the Road Commission for the year ended September 30, 2007:

Balance - Beginning of year	\$ 2,809,800
Debt proceeds	200,000
Debt retired	<u>(625,000)</u>
Balance - End of year	<u><u>\$ 2,384,800</u></u>

Debt Service Requirements

The annual principal and interest requirements to service all debt outstanding as of September 30, 2007 (excluding liabilities for compensated absences and obligation for retiree healthcare benefits) are as follows:

Fiscal Years Ending September 30	Principal	Interest	Total
2008	\$ 625,000	\$ 69,025	\$ 694,025
2009	450,000	47,838	497,838
2010	500,000	30,300	530,300
2011	540,000	10,450	550,450
2012	100,000	-	100,000
2013-2014	<u>169,800</u>	<u>-</u>	<u>169,800</u>
Total	<u><u>\$ 2,384,800</u></u>	<u><u>\$ 157,613</u></u>	<u><u>\$ 2,542,413</u></u>

Interest

Interest expense of the Road Commission for the year ended September 30, 2007 was \$83,635.

Note 8 - Budget Information

The annual budget is prepared by the Road Commission's management and adopted by the board of road commissioners; subsequent amendments are approved by the board of road commissioners. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

Berrien County Road Commission

Notes to Financial Statements September 30, 2007

Note 8 - Budget Information (Continued)

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted on an activity basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the Road Fund budget as adopted by the board of road commissioners is included in the body of the required supplemental information.

Note 9 - Postemployment Benefits

Plan Description

The Road Commission provides retiree healthcare benefits to eligible employees. This is a single employer defined benefit plan administered by the Road Commission. The benefits are provided under the collective bargaining agreement for union employees and by the Road Commission resolution for nonunion employees.

Funding Policy

The agreements require a contribution of \$350 per month for married employees and \$200 per month for single employees. The Road Commission has no obligation to make contributions in advance of when the insurance premiums are due for payment (in other words, this may be financed on a pay-as-you-go basis). Therefore, the Road Commission has elected not to fund the plan in advance.

The Road Commission's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer. The Road Commission has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement No. 45 for employers in plans with fewer than 100 plan members. ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize the actuarial liabilities (or funding excess) over a period not to exceed 30 years. The Road Commission's annual OPEB cost for the year was \$96,313. No contributions were made to the plan during the year ended September 30, 2007. As of September 30, 2007, there were 10 retirees participating in the plan and premiums paid by the Road Commission totaled approximately \$22,850.

Berrien County Road Commission

Notes to Financial Statements September 30, 2007

Note 10 - Defined Benefit Pension Plan

Plan Description

The Road Commission participates in the Berrien County Employees Amended Retirement Plan, a county public employee retirement system, which is a cost-sharing multiple-employer PERS that covers all full-time employees of the Road Commission. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Berrien County Employees Amended Retirement Plan issues a publicly available financial report that includes financial statements and required supplemental information for the plan. That report may be obtained by writing to the system at the Berrien County Courthouse, 811 Port Street, St. Joseph, Michigan 49085.

Funding Policy

The obligation to contribute to and maintain the plan for these employees was established by commission resolution and requires a contribution from the employees of 6 percent of compensation. The Road Commission is required to contribute at an actuarially determined rate, currently 8.62 percent of payroll. The Road Commission's contributions to the plan for the years ended September 30, 2007, 2006, and 2005 were \$295,804, \$197,627, and \$120,190, respectively. The contributions are equal to or greater than the required contributions for each year.

Note 11 - Subsequent Event

The Road Commission received \$200,000 of debt proceeds in October 2007 from a local township for future road improvements within the township.

Required Supplemental Information

Berrien County Road Commission

Required Supplemental Information Budgetary Comparison Schedule - Road Fund Year Ended September 30, 2007

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
Revenue				
State aid - Act 51	\$ 10,698,000	\$ 10,772,462	\$ 10,836,127	\$ 63,665
Federal/State sources	5,831,000	2,733,399	1,468,005	(1,265,394)
Revenue from local governments	230,000	587,119	1,084,329	497,210
Special assessments	140,000	140,000	125,013	(14,987)
Interest, fees, and other revenue	132,000	196,694	764,915	568,221
Pipestone bond fund	150,000	-	-	-
Total revenue	17,181,000	14,429,674	14,278,389	(151,285)
Expenditures				
Current:				
Primary construction	5,000	-	-	-
Primary heavy maintenance	5,387,000	3,345,287	2,489,965	855,322
Local heavy maintenance - Safety	560,000	-	-	-
Primary heavy maintenance - Bridges	1,353,000	619,487	418,167	201,320
Local heavy maintenance	143,000	474,330	552,533	(78,203)
Local heavy maintenance - Safety	170,000	288	796	(508)
Local heavy maintenance - Bridges	32,000	32,965	30,992	1,973
Primary maintenance	3,973,000	4,245,651	4,095,718	149,933
Local maintenance	3,651,200	4,793,664	4,544,194	249,470
Administrative	1,249,000	1,304,144	1,258,256	45,888
State maintenance	55,000	65,140	56,185	8,955
State nonmaintenance	63,000	443,098	443,098	-
County drain assessments	50,000	18,478	18,479	(1)
Equipment and capital outlay - Net of depreciation credits	600,500	309,701	384,885	(75,184)
Debt service:				
Principal retirement	625,000	625,000	625,000	-
Interest/Fees	90,038	90,038	83,635	6,403
Total expenditures	18,006,738	16,367,271	15,001,903	1,365,368
Excess of Expenditures Over Revenue	(825,738)	(1,937,597)	(723,514)	1,214,083
Other Financing Sources				
Proceeds from issuance of long term debt	150,000	150,000	200,000	50,000
Proceeds from sale of assets	88,000	167,790	168,010	220
Total other financing sources	238,000	317,790	368,010	50,220
Excess of Expenditures Over Revenue and Other Financing Sources	(587,738)	(1,619,807)	(355,504)	1,264,303
Fund Balance - Beginning of year	6,058,497	6,058,497	6,058,497	-
Fund Balance - End of year	<u>\$ 5,470,759</u>	<u>\$ 4,438,690</u>	<u>\$ 5,702,993</u>	<u>\$ 1,264,303</u>

Other Supplemental Information

Berrien County Road Commission

Other Supplemental Information Analysis of Changes in Road Fund Balances Year Ended September 30, 2007

	Primary Road	Local Road	County Road	Total
Total Revenue	\$ 9,614,848	\$ 4,486,446	\$ 177,095	\$ 14,278,389
Total Expenditures	<u>9,239,775</u>	<u>5,983,723</u>	<u>(221,595)</u>	<u>15,001,903</u>
Excess of Revenue Over (Under) Expenditures	375,073	(1,497,277)	398,690	(723,514)
Other Financing Sources	<u>200,000</u>	<u>-</u>	<u>168,010</u>	<u>368,010</u>
Excess of Revenue and Other Financing Sources Over (Under) Expenditures	575,073	(1,497,277)	566,700	(355,504)
Interfund Transfer	(1,497,277)	1,497,277	-	-
Fund Balance - Beginning of year	<u>3,822,511</u>	<u>-</u>	<u>2,235,986</u>	<u>6,058,497</u>
Fund Balance - End of year	<u>\$ 2,900,307</u>	<u>\$ -</u>	<u>\$ 2,802,686</u>	<u>\$ 5,702,993</u>

Berrien County Road Commission

Other Supplemental Information Analysis of Road Fund Revenue Year Ended September 30, 2007

	Primary Road	Local Road	County Road	Total
State aid - Act 51:				
Michigan Transportation Fund:				
Engineering	\$ 6,667	\$ 3,333	\$ -	\$ 10,000
Allocation	6,069,435	2,959,239	-	9,028,674
Urban roads	1,206,972	552,536	-	1,759,508
Snow removal	25,043	12,902	-	37,945
Federal/State sources:				
Critical bridge	59,664	-	-	59,664
Economic development	-	-	-	-
Surface transportation program	1,090,059	-	-	1,090,059
Bridge	318,282	-	-	318,282
Contributions:				
Township	139,800	797,394	-	937,194
County	-	102,643	-	102,643
City and village	-	44,492	-	44,492
Special assessment - Principal and interest	125,013	-	-	125,013
Other revenue:				
Interest earned	20,255	-	137,392	157,647
Trunkline maintenance	59,050	-	-	59,050
Trunkline nonmaintenance	480,701	-	-	480,701
Salvage sales	-	-	17,041	17,041
Indrive culvert	13,907	13,907	-	27,814
Other	-	-	22,662	22,662
Total revenue	<u>\$ 9,614,848</u>	<u>\$ 4,486,446</u>	<u>\$ 177,095</u>	<u>\$ 14,278,389</u>

Berrien County Road Commission

Other Supplemental Information Analysis of Road Fund Expenditures Year Ended September 30, 2007

	Primary Road	Local Road	County Road	Total
Primary road:				
Heavy maintenance	\$ 2,489,965	\$ -	\$ -	\$ 2,489,965
Maintenance	4,095,718	-	-	4,095,718
Local road:				
Heavy maintenance	-	552,533	-	552,533
Maintenance	-	4,544,194	-	4,544,194
Safety	-	796	-	796
Primary road structures -				
Heavy maintenance	418,167	-	-	418,167
Local road structures -				
Heavy maintenance	-	30,992	-	30,992
Charges for services -				
State maintenance	499,283	-	-	499,283
Administrative expense - Net	726,378	531,878	-	1,258,256
Net equipment expense	292,389	314,091	24,629	631,109
Net capital outlay	-	-	(246,224)	(246,224)
Debt service:				
Debt principal payments	625,000	-	-	625,000
Interest expense	83,635	-	-	83,635
Drain assessment	9,240	9,239	-	18,479
Total expenditures	<u>\$ 9,239,775</u>	<u>\$ 5,983,723</u>	<u>\$ (221,595)</u>	<u>\$ 15,001,903</u>

Berrien County Road Commission

Other Supplemental Information Statement of Road Fund Administrative Expenditures Year Ended September 30, 2007

	Amended Budget	Actual	Variance Favorable (Unfavorable)
Office salaries and wages		\$ 934,246	
Repairs and maintenance		2,472	
Professional services		87,071	
Conference and travel		28,511	
Office supplies		19,427	
Advertising		11,883	
Dues and subscriptions		13,226	
Telephone		19,993	
Insurance		44,029	
Depreciation		49,063	
Equipment rental		19,039	
Utilities		25,127	
Miscellaneous		4,169	
Total administrative expenditures	<u>\$ 1,304,144</u>	<u>\$ 1,258,256</u>	<u>\$ 45,888</u>

December 11, 2007

To the Board of Road Commissioners
Berrien County Road Commission
Benton Harbor, Michigan

In connection with our audit of the books and records of Berrien County Road Commission (the "Road Commission") for the year ended September 30, 2007, we offer the following comments and suggestions.

We would again like to compliment the Road Commission on the additional improvements in the accounting records. A lot has been accomplished again in the last year. We will be discussing with management additional ways we can continue to work together to increase audit efficiency and timeliness in the future.

Audit of Federal Expenditures (Repeat from prior year)

OMB Circular A-133 requires that a compliance audit be performed if expenditures incurred with federal funds exceed \$500,000 in a given year. For the past several years, the Road Commission's largest grants have consisted of the types of federal funds that are fully administered by the Michigan Department of Transportation (MDOT). There have not been federal funds expended directly by the Road Commission in excess of the \$500,000 threshold. Therefore, the Road Commission has not been required to have a separate federal grant compliance audit for several years. In the future, when costs are incurred from grants that are not fully administered by MDOT, the Road Commission will need to have this separate audit if federal expenditures exceed \$500,000 in a given fiscal year.

Electronic Transfers (Repeat from prior year)

There was a new bill passed and signed on December 31, 2002 (PA 738) that requires all local units of government to approve a resolution authorizing payments of automated clearing house (ACH) transactions. Beginning immediately, a local unit's governing body must adopt a policy on ACH arrangement that includes all of the following:

- Designation of an individual as the party responsible for payment approval, accounting, reporting, and compliance with the ACH policy
- A statement that this individual is required to submit documentation as follows: describe goods or services purchased, the cost, date of payment, and the department benefiting from the purchase
- A system of internal controls to monitor the use of ACH transactions
- The approval of ACH invoices before payment

We have provided management with a sample resolution for electronic transactions during audit fieldwork. It is our understanding that while ACH transactions are not currently used by the Road Commission, they may be used in the future. Therefore, the Road Commission may wish to adopt this policy in anticipation of its future use.

Statements on Auditing Standards 104 to 111 - The Risk Assessment Standards

The AICPA issued Statements on Auditing Standards (SAS 104 - SAS 111) which will substantially affect the auditing process. The effective date for your audits will be for the audit of the financial statements for the year ended September 30, 2007. These standards essentially redefine the audit process from start to finish and the ramifications for the audit process are substantial.

The new standards primarily require:

- The auditor to obtain a deeper understanding of (1) the Road Commission and its internal control, for the purpose of identifying the risks of material misstatement in the financial statements, and (2) what the Road Commission is doing to mitigate those risks
- A more rigorous assessment of the risks of material misstatement based on that understanding, with additional emphasis on significant risks that call for special audit consideration
- A clearer linkage between the assessed risks and the audit procedures performed, including tests of controls and substantive tests, in response to those risks

We have invested substantial resources into the redesign of our audit process to conform to these requirements. Our ultimate goal, as in the past, is to provide a quality audit, in full conformance with the requirements, which is tailored to the unique environment for Michigan municipals. As a result, our 2008 audit process will have many new features and elements built in. We will work with you to understand the elements, involve you in the information gathering process, and perform audit tests focused on the risks embedded in the Road Commission's financial statements. To provide you with as much lead time as possible in the data gathering process, we will review the information needs and provide the necessary tools in the next several months.

We sincerely thank you and appreciate the courtesy and cooperation extended to us by you and members of the Road Commission during the audit. We appreciate the opportunity to present these recommendations for your consideration and will be pleased to discuss them further at your convenience.

This report is intended solely for the information and use of the Road Commission's board and management.

Very truly yours,

Plante & Moran, PLLC



Sharon L. Vargo, CPA
Partner